

**Rose City Area Fire Board
Ogemaw County, Michigan
Financial Report
With Supplemental Information
December 31, 2006**

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

| | | | |
|--|-------------------------------|---|------------------|
| Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other | | Local Unit Name ROSE CITY AREA FIRE BOARD | County OGEMAW |
| Fiscal Year End DECEMBER 31, 2006 | Opinion Date JUNE 12, 2007 | Date Audit Report Submitted to State JUNE 14, 2007 | |

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).


YES NO

Check each applicable box below. (See instructions for further detail.)

1. ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☒ ☐ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☒ ☐ The local unit has adopted a budget for all required funds.
5. ☒ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☒ ☐ The local unit is free of repeated comments from previous years.
12. ☒ ☐ The audit opinion is UNQUALIFIED.
13. ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

| | | | |
|--|-------------------------------------|--|------------------------------|
| We have enclosed the following: | Enclosed | Not Required (enter a brief justification) | |
| Financial Statements | <input checked="" type="checkbox"/> | | |
| The letter of Comments and Recommendations | <input checked="" type="checkbox"/> | | |
| Other (Describe) | <input type="checkbox"/> | | |
| Certified Public Accountant (Firm Name) ROBERTSON & CARPENTER CPAs, P.C. | | Telephone Number 989-685-2411 | |
| Street Address 103 E MAIN STREET | | City ROSE CITY | State MI |
| | | Zip 48654 | |
| Authorizing CPA Signature  | | Printed Name RODNEY C. ROBERTSON | License Number 1101007829 |

Rose City Area Fire Board

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ROBERTSON & CARPENTER CPAs, P.C.

CERTIFIED PUBLIC ACCOUNTANTS

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INDEPENDENT AUDITOR'S REPORT

Fire Board
Rose City Area Fire Board
Ogemaw County, Michigan

We have audited the accompanying financial statements of the governmental activities and the major fund of the Rose City Area Fire Board as of and for the year ended December 31, 2006, which collectively comprise the Fire Board's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Rose City Area Fire Board's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and major fund of the Rose City Area Fire Board as of December 31, 2006, and the respective changes in financial position thereof, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis and budgetary comparison information on page 2 through page 6 and page 17 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Robertson & Carpenter CPAs, P.C.

Robertson & Carpenter CPAs, P.C.

Certified Public Accountants

June 12, 2007

Management's Discussion and Analysis

As management of Rose City Area Fire Board (the "Fire Board"), we offer readers of the Fire Board's financial statements this narrative overview and analysis of the financial activities of the Fire Board for the year ended December 31, 2006.

Financial Highlights

- The assets of the Fire Board exceeded its liabilities at the close of the most recent fiscal year by \$335,749 (*net assets*). Of this amount, \$103,865 (*unrestricted net assets*) may be used to meet the Fire Board's ongoing obligations.
- The Fire Board's total net assets decreased by \$10,270.
- As of the close of the current fiscal year, the Fire Board's general fund, the only governmental fund, reported an ending fund balance of \$103,865, an increase of \$34,099 in comparison with the prior year.
- At the end of the current fiscal year, unreserved fund balance for the general fund was \$46,995 or 45% percent of total general fund expenditures.

Overview of the Financial Statements

This discussion and analysis are intended to serve as an introduction to the Fire Board's basic financial statements. The Fire Board's basic financial statements comprise three components: 1) Government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-wide financial statements. The *Government-wide financial statements* are designed to provide readers with a broad overview of the Fire Board's finances, in a manner similar to a private-sector business.

The *statement of net assets* presents information on all of the Fire Board's assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Fire Board is improving or deteriorating.

The *statement of activities* presents information showing how the Fire Board's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods.

Both of the Government-wide financial statements present functions of the Fire Board that are principally supported by intergovernmental revenues (*governmental activities*). The governmental activities of the Fire Board consist of public safety (fire protection services). The Fire Board does not have any business-type activities as of and for the year ended December 31, 2006.

The Government-wide financial statements can be found on pages 7-8 of this report.

Fund financial statements. A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Fire Board, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the Fire Board consist of one category: governmental funds.

Governmental funds. *Governmental funds* are used to account for essentially the same functions reported as *governmental activities* in the Government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on *near-term inflows and outflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the fiscal year. Such information may be useful in evaluating a Fire Board's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the Government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

The Fire Board maintains one governmental fund. Information is presented in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the General Fund.

The Fire Board adopts an annual appropriated budget for its general fund. Budgetary comparison statements or schedules have been provided for the General Fund herein to demonstrate compliance with the budget.

The basic governmental fund financial statements can be found on pages 9-10 of this report.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 11-16 of this report.

Government-wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the Fire Board, assets exceeded its liabilities by \$335,749 at the close of the most recent fiscal year.

A portion of the Fire Board's net assets (69%) reflects its investment in capital assets (e.g., land, buildings, vehicles, and equipment). The Fire Board uses these capital assets to provide services to the community; consequently, these assets are *not* available for future spending.

Fire Board's Net Assets

| | Governmental Activities 12/31/06 | Governmental Activities 12/31/05 |
|----------------------------|--|--|
| Current and Other Assets | \$ 106,966 | \$ 73,605 |
| Capital Assets, Net | 231,884 | 276,253 |
| Total Assets | \$ 338,850 | \$ 349,858 |
| | | |
| Current Liabilities | 3,101 | 3,839 |
| Total Liabilities | \$ 3,101 | \$ 3,839 |
| | | |
| Net Assets: | | |
| Invested in Capital Assets | 231,884 | 276,253 |
| Unrestricted | 103,865 | 69,766 |
| Total Net Assets | \$ 335,749 | \$ 346,019 |

The Fire Board's net assets decreased by \$10,270 during the current fiscal year. Unrestricted net assets—the part of net assets that can be used to finance day to day operations, increased by \$34,099 or 49%, during fiscal year 2006.

Fire Board's Changes in Net Assets

| | Governmental Activities 12/31/06 | Governmental Activities 12/31/05 |
|------------------------------------|---|---|
| Revenue: | | |
| Program Revenue: | | |
| Charges for Services | \$ 97,575 | \$ 92,109 |
| Operating Grants and Contributions | 1,432 | -0- |
| General Revenue: | | |
| Interest Earnings | 4,090 | 3,454 |
| Other | 1,027 | 2,481 |
| Total Revenue | \$ 104,124 | \$ 98,044 |
| Expenses: | | |
| Public Safety | \$ 114,394 | \$ 120,394 |
| Total Expenses | \$ 114,394 | \$ 120,394 |
| Increase in Net Assets | (10,270) | (22,350) |
| Net Assets, Beginning of Year | 346,019 | 368,369 |
| Net Assets, End of Year | \$ 335,749 | \$ 346,019 |

Governmental activities. The Fire Board's total governmental revenues increased by \$6,080 during the current year. This was primarily attributed to an increase in contributions from local units. Expenses decreased by \$6,000. The decrease was primarily due to less depreciation expense on Fire Board assets in the current year.

Financial Analysis of the Government's Funds

As noted earlier, the Fire Board uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

As of the end of the current fiscal year, the Fire Board's governmental fund reported an ending fund balance of \$103,865, an increase of \$34,099 in comparison with the prior year. The *unreserved fund balance*, which is available for spending at the Fire Board's discretion, constitutes 45% of this total amount.

The only governmental fund is the General Fund of the Fire Board. As a measure of the general fund's liquidity, it may be useful to compare both unreserved fund balance and total fund balance to total fund expenditures. Unreserved fund balance and total fund balance represent 67% and 148%, respectively, of total general fund expenditures.

The fund balance of the General Fund increased by \$34,099 during the current fiscal year.

General Fund Budgetary Highlights

The Fire Board's budgets are prepared in accordance with Michigan Law. The only budgeted fund is the General Fund. The General Fund budget was amended in a legally permissible manner during the year.

Capital Asset and Debt Administration

Capital assets. The Fire Board's investment in capital assets for its governmental activities as of December 31, 2006, amounted to \$231,884 (net of accumulated depreciation). Investment in capital assets includes land, buildings, vehicles and equipment. Additions during the year consisted of paving costs of \$9,487.

Fire Board's Capital Assets (net of depreciation)

| | | | | |
|-------------------------|-----------|-----------------------|-----------|-----------------------|
| Land | \$ | 9,750 | \$ | 500 |
| Buildings | | 8,982 | | 9,490 |
| Machinery and equipment | | 212,737 | | 265,649 |
| Office equipment | | 415 | | 614 |
| <hr/> | | | | |
| Total | \$ | <u>231,884</u> | \$ | <u>276,253</u> |

Additional information on the Fire Board's capital assets can be found in note 5 on page 16 of this report.

Factors Bearing on the Fire Board's Future

The following factors were considered in preparing the Fire Board's budget for the year ending December 31, 2007:

- The 2007 budget includes capital outlay of \$10,000. The Fire Board revenues are anticipated to exceed expenditures for 2007, allowing the Fire Board to accumulate funds for future equipment purchases. The Fire Board periodically applies for grants for fire equipment and supplies. If any grants are received, budgeted revenues and expenditures will be amended accordingly. Our budgets were prepared with these factors in mind and will be revised as needed.

Requests for Information

This financial report is designed to provide a general overview of the Fire Board's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to:

Rose City Area Fire Board
PO Box 445
Rose City, Michigan 48654

Basic Financial Statements

Rose City Area Fire Board
Statement of Net Assets
December 31, 2006

| | <u>Governmental Activities</u> |
|------------------------------------|------------------------------------|
| Assets | |
| Cash and cash equivalents (Note 3) | \$ 105,292 |
| Receivables: (Note 4) | |
| Receivable-other | 374 |
| Intergovernmental | 1,300 |
| Capital assets-net (Note 5) | <u>231,884</u> |
| Total assets | <u>338,850</u> |
| Liabilities | |
| Current liabilities: | |
| Accounts payable | 1,407 |
| Payable to other governments | <u>1,694</u> |
| Total current liabilities | <u>3,101</u> |
| Net Assets | |
| Invested in capital assets | 231,884 |
| Unrestricted | <u>103,865</u> |
| Total net assets | <u>\$ 335,749</u> |

See accompanying notes to financial statements.

Rose City Area Fire Board
Statement of Activities
Year Ended December 31, 2006

| Functions/Programs | Program Revenues | | | Governmental |
|----------------------------------|-------------------|-------------------------|---------------------|--|
| | Expenses | Charges for Services | Operating Grants | Activities Net (Expense) Revenue and Changes in Net Assets |
| Governmental Activities | | | | |
| Public safety | \$ 114,394 | \$ 97,575 | \$ 1,432 | \$ (15,387) |
| Total governmental activities | <u>\$ 114,394</u> | <u>\$ 97,575</u> | <u>\$ 1,432</u> | <u>\$ (15,387)</u> |
| General Revenues: | | | | |
| Interest earnings | | | | 4,090 |
| Other | | | | <u>1,027</u> |
| Total general revenues | | | | <u>5,117</u> |
| Change in Net Assets | | | | (10,270) |
| Net assets - beginning of year | | | | <u>346,019</u> |
| Net assets - end of year | | | | <u>\$ 335,749</u> |

See accompanying notes to financial statements.

Rose City Area Fire Board
Governmental Funds
Balance Sheet
December 31, 2006

| | <u>General Fund</u> |
|-------------------------------------|-------------------------|
| Assets | |
| Cash and investments | \$ 105,292 |
| Receivables: | |
| Receivable-other | 374 |
| Receivable from other governments | <u>1,300</u> |
| Total assets | <u>\$ 106,966</u> |
| Liabilities | |
| Accounts payable | \$ 1,407 |
| Due to other governments | 1,694 |
| | <u>3,101</u> |
| Fund balances | |
| Designated for truck purchase | 56,870 |
| Unreserved: | |
| General Fund | <u>46,995</u> |
| Total fund balances | <u>103,865</u> |
| Total liabilities and fund balances | <u>\$ 106,966</u> |

Amounts reported for governmental activities in the statement of net assets are different because:

| | |
|--|-------------------|
| Fund Balances - Total Governmental Funds | \$ 103,865 |
| Amounts reported for governmental activities in the statement of net assets are different because: | |
| Capital assets used in governmental activities are not financial resources, and are not reported in the funds. | |
| The cost of capital assets is | 741,207 |
| Accumulated depreciation is | (509,323) |
| Net Assets of Governmental Activities | <u>\$ 335,749</u> |

See accompanying notes to financial statements.

Rose City Area Fire Board
Governmental Funds
Statement of Revenues, Expenditures and Changes in Fund Balances
Year Ended December 31, 2006

| | General Fund |
|--|-------------------|
| Revenues | |
| Contributions from local units | \$ 85,813 |
| State grants | 1,432 |
| Charges for services | 11,762 |
| Interest earnings | 4,090 |
| Other | 1,027 |
| Total revenues | <u>104,124</u> |
| Expenditures | |
| Current: | |
| Public safety | 60,538 |
| Capital outlay | 9,487 |
| Total expenditures | <u>70,025</u> |
| Net changes in fund balances | 34,099 |
| Fund balances - Beginning of year | <u>69,766</u> |
| Fund balances - End of year | <u>\$ 103,865</u> |

**Amounts reported for governmental activities in the statement of activities
are different because:**

| | |
|---|------------------|
| Net Change in Fund Balances - Total Governmental Funds | \$ 34,099 |
|---|------------------|

Government funds report capital outlays as expenditures;
in the statement of activities these costs are allocated
over their estimated useful lives as depreciation.

| | | |
|----------------------|--------------|-----------------|
| Depreciation expense | (53,856) | |
| Capital Outlay | <u>9,487</u> | <u>(44,369)</u> |

| | |
|--|--------------------|
| Change in Net Assets of Governmental Activities | \$ (10,270) |
|--|--------------------|

See accompanying notes to financial statements.

Rose City Area Fire Board
Notes to Financial Statements
December 31, 2006

Note 1 - Summary of Significant Accounting Policies

The accounting policies of the Rose City Area Fire Board ("the Fire Board") conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the more significant policies used by the Fire Board:

Reporting Entity

The Rose City Area Fire Board is a Joint Fire Department authorized by 1951 PA 35, as amended; and, 1967 (EX Sess) 7, as amended. The Board serves four governmental units - City of Rose City, Rose Township, Cumming Township and Klacking Township.

The Fire Board consists of one representative from each government.

The accompanying financial statements have been prepared in accordance with criteria established by the Governmental Accounting Standards Board (GASB) for determining the various governmental organizations to be included in the reporting entity. These criteria include significant operational financial relationships that determine which of the governmental organizations are a part of the Fire Board's reporting entity, and which organizations are legally separate, component units of the Fire Board. Based on the application criteria, the Fire Board does not contain any component units.

Government-wide and Fund Financial Statements

The Government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the nonfiduciary activities of the Fire Board. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. All the Fire Board's government-wide activities are considered governmental activities. The Fire Board does not have any business-type activities.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenue includes (1) charges to customers or applicants who purchase, use or directly benefit from goods, services, or privileges provided by a certain function and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Revenues not properly included among program revenues are reported instead as general revenue.

Separate financial statements are provided for governmental funds.

Rose City Area Fire Board
Notes to Financial Statements
December 31, 2006

Note 1 - Summary of Significant Accounting Policies (Continued)

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Government fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Fire Board considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting.

Annual contributions from member units and interest earnings associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenue of the current fiscal period. All other revenue items are considered to be available only when the cash is received by the Fire Board.

The Fire Board reports the following major governmental fund:

The General Fund is the Fire Board's primary operating fund. It accounts for all financial resources of the Fire Board.

Amounts reported as program revenue include: (1) charges to customers for goods, services or privileges provided, (2) operating grants and contributions and (3) capital grants and contributions. General revenue includes interest earnings and other revenues.

Assets, Liabilities, and Net Assets or Equity

Bank Deposits and Investments - Cash and cash equivalents include cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value.

Rose City Area Fire Board
Notes to Financial Statements
December 31, 2006

Note 1 - Summary of Significant Accounting Policies (Continued)

Receivables and Payables - All trade receivables are shown net of an allowance for uncollectible amounts, if applicable.

Capital Assets - Capital assets, which include land, buildings and equipment, are reported in the governmental activities column in the government-wide financial statements. Capital assets are defined by the Fire Board as assets with an initial individual cost of more than \$1,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of the donation.

Buildings, machinery and equipment are depreciated using the straight-line method over the following useful lives:

| | |
|-------------------------|------------|
| Buildings and additions | 50 years |
| Machinery and equipment | 8-15 years |
| Office equipment | 5 years |

Compensated Absences - There is no liability for compensated absences reported in the government-wide financial statements since no Fire Board employees are provided with sick or vacation pay benefits.

Fund Equity - In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriating or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change. The Fire Board has designated \$69,766 for future use for purchase of a truck.

Comparative Data/Reclassifications - Comparative data is not included in the Fire Board's financial statements.

Rose City Area Fire Board
Notes to Financial Statements
December 31, 2006

Note 2 - Stewardship, Compliance and Accountability

Budgetary Information - Annual budgets are adopted on a basis consistent with generally accepted accounting principles and state laws for the general fund. All annual appropriations lapse at fiscal year end.

The budget document presents information by fund and function. The legal level of budgetary control adopted by the governing body (i.e., the level at which expenditures may not legally exceed appropriations) is the function level. State law requires the Fire Board adopt its budget by January 1. The budget was also approved by the member units of governments as required by the joint operating agreement. State law permits the Fire Board to amend its budget during the year. During the year, the budget was amended in a legally permissible manner.

A new joint fire board agreement was approved by the participating units on January 8, 1997. The agreement provides for sharing of operating costs based on relative taxable value of the participating units.

| Unit | |
|-----------------------|------------------|
| City of Rose City (1) | \$ 13,551 |
| Rose Township | 33,462 |
| Cumming Township | 20,256 |
| Klacking Township | 18,544 |
| Total | <u>\$ 85,813</u> |

(1) The City of Rose City amount is based on the taxable value of the City plus 10%.

Note 3 - Deposits and Investments

Michigan Compiled Laws, Section 129.91 authorizes the Fire Board to make deposits and investments in the accounts of federally insured banks, credit unions, and savings and loan associations that have offices in Michigan. The Fire Board is also allowed to invest in bonds, securities, and other direct obligations of the United States or any agency or instrumentality of the United States; repurchase agreements; bankers' acceptances of United States banks; commercial paper rated within the two highest classifications, which matures not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions, which are rated as investment grade; and mutual funds composed of investment vehicles that are legal for direct investment by local units of government in Michigan.

The Fire Board has designated one banks for the deposit of Fire Board funds. The investment policy adopted by the board in accordance with Public Act 196 of 1997 has authorized investments in accordance with State statutory authority as listed above.

Rose City Area Fire Board
Notes to Financial Statements
December 31, 2006

Note 3 - Deposits and Investments (Continued)

The Rose City Area Fire Board's deposits and investment policy are in accordance with statutory authority.

At year-end, the Rose City Area Fire Board's deposits and investments were reported in the basic financial statements in the following categories:

| Government-wide Financial Statement Captions: | Governmental Activities | Fire Board Total |
|---|----------------------------|------------------------|
| Cash and cash equivalents | \$ 105,292 | \$ 105,292 |
| Total | \$ 105,292 | \$ 105,292 |

The breakdown between deposits and investments for the Fire Board is as follows:

| | |
|--|------------|
| Deposits (Checking, savings accounts and CD's) | \$ 105,292 |
| | \$ 105,292 |

The deposits of the Fire Board were reflected in the accounts of one financial institution of which \$4,883 was exposed to custodial credit risk because it was uninsured.

The Fire Board has not updated its investment policy to conform with Governmental Accounting Standards Board Statement (GASB) #40.

Note 4 - Receivables

Receivables as of year-end for the Fire Board's major fund, including applicable allowances for uncollectible accounts, are as follows:

| Receivables: | General Fund |
|--|-----------------|
| Other | \$ 374 |
| Intergovernmental - (Member units for fire runs) | 1,300 |
| | \$ 1,674 |

Governmental funds report deferred revenue in connection with receivables for revenue that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received but not yet earned. The Fire Board did not have any deferred revenue at December 31, 2006.

Rose City Area Fire Board
Notes to Financial Statements
December 31, 2006

Note 5 - Capital Assets

Capital assets activity of the Fire Board's Governmental activities were as follows:

| | Balance 1/1/2006 | Additions | Deletions | Balance 12/31/2006 |
|---|---------------------|--------------------|-------------|-----------------------|
| Capital assets not depreciated: | | | | |
| Land | \$ 500 | \$ - | \$ - | \$ 500 |
| Capital assets being depreciated: | | | | |
| Land Improvements | - | 9,487 | - | 9,487 |
| Buildings | 25,420 | - | - | 25,420 |
| Machinery & equipment | 704,804 | | | 704,804 |
| Office equipment | 996 | | - | 996 |
| Subtotal | <u>731,720</u> | <u>9,487</u> | <u>-</u> | <u>741,207</u> |
| Accumulated Depreciation | | | | |
| Land Improvements | - | 237 | | 237 |
| Buildings | 15,930 | 508 | - | 16,438 |
| Machinery and equipment | 439,155 | 52,912 | | 492,067 |
| Office equipment | 382 | 199 | - | 581 |
| Subtotal | <u>455,467</u> | <u>53,856</u> | <u>-</u> | <u>509,323</u> |
| Net capital assets being depreciated | <u>276,253</u> | <u>(44,369)</u> | <u>-</u> | <u>231,884</u> |
| Governmental Activities | | | | |
| Total Capital Assets net of Depreciation | \$ <u>276,253</u> | \$ <u>(44,369)</u> | \$ <u>0</u> | \$ <u>231,884</u> |

Depreciation expense was charged to programs of the primary government as follows:

| | |
|-------------------------------|------------------|
| Governmental activities: | |
| Public safety | \$ <u>53,856</u> |
| Total governmental activities | \$ <u>53,856</u> |

Note 6 - Risk Management

The Rose City Area Fire Board is exposed to various risks of loss related to theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by insurance purchased from independent insurance companies. Settled claims from these risks have not exceeded insurance coverage for the last three years.

Required Supplemental Information

Rose City Area Fire Board
 Budgetary Comparison Schedule - General Fund
 Year Ended December 31, 2006

| | Budgeted Amounts | | | Variance with |
|---|------------------|------------------|-------------------|------------------|
| | Original | Amended | | Amended |
| | Budget | Budget | Actual | Budget |
| Fund Balance - Beginning of year | \$ 70,577 | \$ 70,577 | \$ 69,766 | \$ (811) |
| Resources (Inflows) | | | | |
| Contributions from local units | 85,813 | 85,813 | 85,813 | - |
| Federal grants | - | - | - | - |
| State grants | - | 1,431 | 1,432 | 1 |
| Charges for services | 6,500 | 11,862 | 11,762 | (100) |
| Interest earnings | 2,000 | 3,200 | 4,090 | 890 |
| Other | - | - | 1,027 | 1,027 |
| Amounts available for appropriation | <u>164,890</u> | <u>172,883</u> | <u>173,890</u> | <u>1,007</u> |
| Charges to Appropriations (Outflows) | | | | |
| Public safety: | | | | |
| Salaries and wages | | | 22,669 | |
| Payroll taxes | | | 1,735 | |
| Supplies | | | 6,936 | |
| Transportation | | | 2,061 | |
| Communications | | | 662 | |
| Insurance | | | 14,770 | |
| Utilities | | | 5,059 | |
| Repairs | | | 4,386 | |
| Seminars and training | | | 823 | |
| Miscellaneous | | | 1,437 | |
| Total | <u>64,313</u> | <u>65,513</u> | <u>60,538</u> | <u>(4,975)</u> |
| Capital outlay | <u>20,000</u> | <u>28,031</u> | <u>9,487</u> | <u>(18,544)</u> |
| Total charges to appropriations | <u>84,313</u> | <u>93,544</u> | <u>70,025</u> | <u>(23,519)</u> |
| Fund Balance - end of year | <u>\$ 80,577</u> | <u>\$ 79,339</u> | <u>\$ 103,865</u> | <u>\$ 24,526</u> |



ROBERTSON & CARPENTER CPAs, P.C.

CERTIFIED PUBLIC ACCOUNTANTS

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Other office: Mio, Michigan

Rodney C. Robertson, CPA

Robert J. Carpenter, CPA

June 12, 2007

To the Fire Board
Rose City Area Fire Board
Ogemaw County, Michigan

We have audited the financial statements of the Rose City Area Fire Board for the year ended December 31, 2006, and have issued our report thereon dated June 12, 2007. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility under U.S. Generally Accepted Auditing Standards

As stated in our engagement letter dated May 1, 2007, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement and are fairly presented in accordance with U.S. generally accepted accounting principles. Because an audit is designed to provide reasonable, but not absolute assurance and because we did not perform a detailed examination of all transactions, there is a risk that material misstatements may exist and not be detected by us.

As part of our audit, we considered the internal control of the Rose City Area Fire Board. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

Significant Accounting Policies

Management has the responsibility for selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by Rose City Area Fire Board are described in Note 1 to the financial statements. No new accounting policies were implemented during the year ended December 31, 2006. We noted no transactions entered into by the Rose City Area Fire Board during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance or consensus.

Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected.

Audit Adjustments

For purposes of this letter, professional standards define an audit adjustment as a proposed correction of the financial statements that, in our judgment, may not have been detected except through our auditing procedures. An audit adjustment may or may not indicate matters that could have a significant effect on the Rose City Area Fire Board's financial reporting process (that is, cause future financial statements to be materially misstated). In our judgment, none of the adjustments we proposed, whether recorded or unrecorded by the Rose City Area Fire Board, either individually or in the aggregate, indicates matters that could have a significant effect on the Rose City Area Fire Board's financial reporting process.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Issues Discussed Prior to Retention of Independent Auditors

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Rose City Area Fire Board's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing our audit.

This information is intended solely for the use of the Fire Board and management of Rose City Area Fire Board and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,



Robertson & Carpenter CPAs, P.C.
Certified Public Accountants



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Rodney C. Robertson, CPA

Robert J. Carpenter, CPA

June 12, 2007

Fire Board

Rose City Area Fire Board

Ogemaw County, Michigan

In planning and performing our audit of the financial statements of the governmental activities and the major fund of the Rose City Area Fire Board as of and for the year ended December 31, 2006, in accordance with auditing standards generally accepted in the United States of America, we considered the Rose City Area Fire Board's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Fire Board's internal control. Accordingly, we do not express an opinion on the effectiveness of the governmental unit's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. In addition, because of inherent limitations in internal control, including the possibility of management override of controls, misstatements due to error or fraud may occur and not be detected by such controls. However, as discussed below, we identified a certain deficiency in internal control that we consider to be a significant deficiency.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or a combination of control deficiencies, that adversely affects the Fire Board's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Fire Board's financial statements that is more than inconsequential will not be prevented or detected by the Fire Board's internal control. We consider the following deficiency to be a significant deficiency in internal control.

Lack of adequate controls to produce full-disclosure GAAP basis financial statements.

Requirement: All Michigan governmental units are required to prepare financial statements in accordance with generally accepted accounting principles (GAAP). This is a responsibility of the Fire Board's management. The preparation of financial statements in accordance with GAAP requires internal controls over both (1) recording, processing, and summarizing accounting data, and (2) reporting government-wide and fund financial statements, including the related footnotes.

Condition: The Fire Board, as is common with smaller and medium-sized entities, has historically relied on its independent external auditors to assist in the preparation of the government-wide financial statements and footnotes as part of its external financial reporting process. Accordingly, the Fire Board's ability to prepare financial statements in accordance with GAAP is based, in part, on its reliance on its external auditors, who cannot by definition be considered part of the government's internal controls.

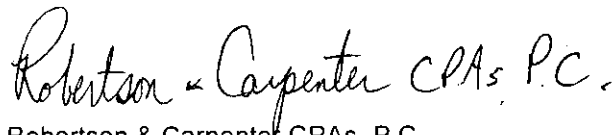
Cause: This condition was caused by the Fire Board's decision that it is more cost effective to outsource the preparation of its annual financial statements to the auditors than to incur the time

and expense of obtaining the necessary training and expertise required for the Fire Board to perform this task internally.

Effect: The result of this condition is that the Fire Board lacks internal controls over the preparation of financial statements in accordance with GAAP, and instead relies, in part, on its external auditors for assistance with this task.

View of responsible officials: The Fire Board has evaluated the cost vs. benefit of establishing internal controls over the preparation of financial statements in accordance with GAAP, and determined that it is in the best interests of the Fire Board to outsource this task to its external auditors, and to carefully review the draft financial statements and notes prior to approving them and accepting responsibility for their content and presentation.

This communication is intended solely for the information and use of management, the Fire Board, and others within the organization, and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in cursive script that reads "Robertson & Carpenter CPAs, P.C.".

Robertson & Carpenter CPAs, P.C.
Certified Public Accountants